

Message Text

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SUBJECT: GENERAL ACCOUNTING OFFICE ASSESSES IMPACT OF US
SECTION 22 DAIRY IMPORT QUOTAS ON UK INDUSTRY & MARKET.

1. TWO MEMBERS OF THE INTERNATIONAL DIVISION OF THE
FRANKFURT OFFICE, JOAN MCCABE AND RICHARD RUSSELL, SPENT
MUCH OF THE PERIOD SEPTEMBER 9-22 IN LONDON REVIEWING
THE ADMINISTRATION AND IMPACT OF SECTION 22 DAIRY QUOTA
RESTRICTIONS. CALLS WERE MADE ON THE MINISTRY OF
AGRICULTURE, MILK MARKETING BOARD, JOINT EXPORT COMMITTEE
OF THE COCOA, CHOCOLATE & CONFECTIONERY ALLIANCE, AND
EXPORTERS OF DAIRY PRODUCTS.

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2. AGATTACHE OFFICE BELIEVES THE FOLLOWING SUMMARIZES

BASIC FINDINGS OF THE TEAM:

A) US QUOTA RESTRICTIONS HAVE BOTH A DIRECT AND INDIRECT EFFECT ON UK INDUSTRY. THE DIRECT EFFECT WAS SEEN DURING THE PAST YEAR. THE LARGE INCREASE IN QUOTAS RESULTED IN A JUMP IN DAIRY IMPORTS INTO THE US FROM THE UK FROM \$700,000 (FY 73) TO ABOUT \$11.9 MILLION (FY 74).

HOWEVER, THE UK IS THE WORLD'S LARGEST IMPORTER OF DAIRY PRODUCTS WITH OVER 326,000 TONS OF BUTTER, 135,000 TONS OF CHEESE, AND 32,000 TONS OF DRIED MILK POWDER IMPORTED IN CALENDAR YEAR 1973. THEREFORE, IMPACT OF CHANGES IN US QUOTA LEVEL HAS AN INDIRECT EFFECT IN THE UK AS WORLD PRICES AND MARKETS CAUSE CHANGES IN AVAILABILITY OF SUPPLY. THE INDIRECT EFFECT IS MORE SIGNIFICANT FROM A UK NATIONAL POINT OF VIEW.

B) UK DAIRY EXPORTERS EXPECT QUOTAS TO HAVE LARGER EFFECT IN FUTURE AS EC EXPORT SUPPORT LEVELS BECOME FULLY OPERATIVE IN THIS MARKET.

C) IT WAS ADMITTED BY SOME EXPORTERS THAT THE PRICE BREAK MECHANISM IN THE US SET A MINIMUM EXPORT PRICE FOR APPLICABLE CHEESE. CURRENT MARKET CONDITIONS HOWEVER CAUSE PRICES TO BE SUBSTANTIALLY ABOVE PRICE BREAK. ONLY THEORETICAL STATEMENTS ON EFFECT OF US QUOTAS ON US PRICES WERE VOLUNTEERED BY INTERVIEWEES.

D) A STRONG FEELING WAS EXPRESSED BY HMG THAT CHANGES IN QUOTA LEVELS SHOULD BE ON A GRADUAL BASIS SO AS TO AVOID DRASTICALLY DISRUPTING WORLD MARKETS.

E) PREFERENCE WAS EXPRESSED BY ALL PARTIES FOR A SYSTEM OF TARIFFS RATHER THAN QUOTAS OR, ALTERNATIVELY, A SYSTEM OF MINIMUM IMPORT PRICES. A SYSTEM OF TARIFFS IT WAS THOUGHT WOULD PROVIDE A TIME LAG DURING WHICH WORLD PRICES COULD ADJUST TO CURRENT DEMAND.

F) THE OPINION WAS OFTEN EXPRESSED THAT THE UK WOULD SUPPLY LARGER QUANTITIES OF DAIRY PRODUCTS TO US IF THE QUOTA SYSTEM WAS REMOVED. EXCEPT FOR CHOCOLATE CRUMB, HOWEVER, NO LOGICAL EXPLANATION COULD BE GIVEN AS TO WHY CURRENT QUOTAS ARE OFTEN UNFILLED.

G) CHOCOLATE CRUMB QUOTA REMAINS UNFILLED BECAUSE OF THE INABILITY OF ANY ONE OF SEVERAL LARGE US CHOCOLATE PRODUCERS TO ACTIVELY EXPAND A MARKET FOR DAIRY MILK CHOCOLATE WHICH REQUIRES A BASIC INGREDIENT THAT IS UNCLASSIFIED

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SUBJECT TO QUANTITATIVE RESTRICTION. THE CURRENT QUOTA IS CONSIDERED ABOUT TWO-THIRDS OF THE AMOUNT REQUIRED TO ENSURE THE CONSTRUCTION OF A PLANT IN THE US TO PRODUCE CHOCOLATE CRUMB. HOWEVER, CADBURY'S IS OPENING A \$10 MILLION PLANT IN PENNSYLVANIA TO PRODUCE DAIRY MILK CHOCOLATE AND IT IS EXPECTED THAT NEXT YEAR THE QUOTA WILL BE FULLY FILLED TO KEEP THIS PLANT OPERATING, AND, IF MARKET EXPANSION TAKES PLACE AS PLANNED, THEN A US

CRUMB PLANT WILL BE CONSTRUCTED.

H) HMG STILL FEELS THAT THE US IS ACTING CONTRARY TO GATT IN THE AREA OF CHOCOLATE CRUMB. HOWEVER, EXCEPT FOR THIS PARTICULAR PRODUCT, THERE IS LITTLE PERCEIVED PRESSURE FOR ELIMINATION OF US DAIRY IMPORT QUOTAS.

I) THERE IS NO ADMINISTRATIVE MECHANISM TO PARCEL OUT ACCESS TO US MARKET AND ALL TRANSACTIONS ARE THEREFORE PURELY COMMERCIAL AGREEMENTS BETWEEN EXPORTERS AND IMPORTERS.

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